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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of:)
)
Simplification of the) CC Docket No. 92-296
Depreciation Prescription Process)

COMMENTS
OF THE
UNITED STATES TELEPHONE ASSOCIATION

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Summary of Comments

The United States Telephone Association (USTA) supports the Commission's objectives here of simplifying its depreciation procedures and seeking ways to reduce the administrative costs for carriers and the Commission. USTA agrees that the interstate depreciation process should be reassessed. The environment has changed dramatically, and the current processes cannot keep up with the unprecedented reduction in the revenue producing lives of telephone assets. The reduction is not capable of being recognized in a timely manner under current procedures. A detailed example of the dilemma facing the fully subject carriers in the face of new technology and competition is set out at page 24.

These comments show how competitors of the exchange carriers can use depreciation rates that are substantially different from, and more advantageous to them than those of the fully subject exchange carriers. In some cases identified here, the difference is almost 100%. In others, it is greater. Depreciation reassessment and simplification are appropriate for both price cap and rate of return carriers. Technology is not sensitive to a carrier's regulatory status.

USTA favors the Price Cap Carrier option of the four options identified by the Commission. However, USTA would carefully define the option to assure that the requirements are well understood, and also to assure it will not be rejected simply because of the summary description contained in the NPRM. USTA believes this option would best utilize the extensive data that will continue to be filed or made available to

the Commission, and this option can carefully merge depreciation policy with the Commission's other regulatory policies best.

This option would achieve the greatest simplification in depreciation procedures, and the greatest reduction in administrative costs - almost 50% - if made available for all accounts. USTA supports its implementation in 1994. USTA explains in detail the way in which it would define the Price Cap Carrier option, and how it would operate in a way that is consistent with the Commission's own objectives. It would dovetail with a *panoply of other regulatory policies and safeguards*. Just as price cap regulation is not deregulation of rates, this option would not be deregulation of depreciation.

Of the remaining options, USTA views the Depreciation Rate Range and Basic Factors Range options as providing roughly equivalent simplification benefits and administrative cost reductions. The administrative cost reductions would be significant - 31 to 33% - but also would be significantly less than those that would accrue with the Price Cap Carrier option. As between the two range options, USTA believes at this point that the benefits would be slightly greater with the Depreciation Rate Range option. If either of these options is adopted, the benefits will depend heavily on the nature and breadth of the ranges adopted, however. All accounts should be included, and the ranges should be set around realistic future oriented benchmarks that can reflect the changes in plant consumption promoted by competition and technology. Either range option also can be implemented in 1994.

At this time, USTA does not believe adoption of the remaining option, the Depreciation Schedule option, is appropriate. This is based on assumptions made in the NPRM.

Any option adopted by the Commission should not differentiate among fully subject carriers, such as between exchange and interexchange carriers. Technology is not sensitive to industry boundaries, nor does it treat carriers differently based on whether they provide interstate services inside or outside an exchange. Depreciation should differentiate assets, not asset owners.

USTA explains how extensive safeguards would be present in various Commission processes and in capital recovery procedures themselves. A number of factors will combine to exert direct and indirect control over the way in which carriers will depreciate their plant. USTA also shows how the Price Cap Carrier and other options are consistent with the Communications Act.

Finally, USTA recommends no change in the treatment of salvage at this time. The present treatment is in accord with generally accepted accounting principles and can be used with any of the options proposed.

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The United States Telephone Association (USTA) respectfully submits these comments on the Commission's Notice of Proposed Rulemaking (NPRM) in this proceeding, released December 29, 1992, 8 FCC Rcd 146 (1992).¹

In the NPRM, the Commission proposes to simplify the prescription of interstate depreciation rates, and it proposes four general alternatives for simplification, options it calls the Basic Factors Range option, the Depreciation Rate Range option, the Depreciation Schedule option, and the Price Cap Carrier option. The Commission seeks a result that will reduce the costs associated with its depreciation prescription process.

As the Commission will see below, USTA strongly favors the Price Cap Carrier option for fully subject carriers. The Basic Factors Range and Depreciation Rate Range options are viewed as roughly equivalent second-best alternatives. The Price Cap Carrier

¹USTA is the principal national trade association of exchange carriers, or LECs. Its membership of more than 1,000 exchange carriers provides most of the nation's exchange carrier-provided access lines. USTA believes that all of the exchange carriers that are subject to the Communications Act (Act) provisions related to depreciation, set out at 47 U.S.C. §§ 220-21, are USTA members.

option will produce the maximum public interest benefits, and can be implemented without any adverse impacts. The changes suggested here should be implemented in 1994.

I. THERE IS A NEED FOR REFORM OF THE INTERSTATE DEPRECIATION PROCESS.

There is a continuing need for reassessment of the interstate depreciation process, because of the continuous changes that are occurring in the marketplace, and in the patterns of investment in the telecommunications industry. The telecommunications environment LECs face has changed radically in recent years.² It has become apparent that the Commission's depreciation procedures have become a restraint on carriers' ability to compete in that increasingly competitive telecommunications marketplace.

Simply stated, the process has failed to keep up with the rapidly-changing market. On numerous occasions in the recent past, the Commission has taken specific action to address part of the growing problem of depreciation reserve deficiencies.³ While some progress has been made, the Commission's industry-wide 1988 action addressed only part of the deficiency that was identified then by the affected carriers, and that action has proved to be far too circumscribed, given the march of events in the five years since that

²See Policy and Rules Concerning Rates for Dominant Carriers, 5 FCC Rcd 6786, 6790 (1990)(LEC Price Cap Order) at ¶ 28.

³See, e.g., Amortization of Depreciation Reserve Imbalances of Local Exchange Carriers, 3 FCC Rcd 984 (1988). A significant number of carrier-specific amortizations also have been ordered. See also Memorandum Opinion and Order, Prescription of Revised Percentages of Depreciation, released January 15, 1993, at notes 1 and 10.

proceeding was concluded.⁴ Today, most carriers identify new or continuing reserve deficiencies.⁵ The rapid changes in the industry have caused an unprecedented reduction in the revenue producing lives of telephone assets which reduction is not capable of being recognized in a timely manner under current procedures.

The Commission's continuing policy of actively promoting competition as its primary goal places increasingly great pressure on established carriers to respond more quickly to customer demand for new services and technology, and it also causes ripple effects in the peripheral areas of business planning and network investment. The rapid rise of competition has spawned ever-more-rapid advances in technology applications, shortening the time for generational changes in telecommunications equipment and software. The Commission's depreciation procedures must be reviewed and updated to reflect competition and changing technology.

Quite simply, the market is moving faster than the Commission's depreciation procedures are changing. This is not an indictment of the Commission; it is simply a statement of fact.⁶ While the Commission's current depreciation procedures may be

⁴See, in a closely related vein, AT&T Petition for Waiver of the Commission's Depreciation Methods and Procedures, filed January 27, 1993, and placed on Public Notice on February 11, 1993, at 14 (currently a \$4 billion differential between financial depreciation reporting and depreciation reporting under regulatory limitations.)

⁵Some carriers may need reserve deficiency amortizations, or RDAs, to maintain accounts within acceptable bounds. One of the carriers' major concerns with the Depreciation Rate Range and Depreciation Schedule options presented here is the fact that the NPRM itself accepts the presence of continued depreciation reserve deficiencies for each even after this proceeding is concluded. See NPRM at ¶¶ 31-32 and 39.

⁶As recently as 1987, the Commission staff proposed projection lives of 18-20 years for analog switching equipment although the industry typically anticipated lives of 11-12 years. Both have proved to be optimistic; the actual lives have been even shorter on

arithmetically "precise," they yield inaccurate results when compared against market expectations. The carriers are increasingly at risk, because the gap between competitive market impacts and established depreciation allowances is still widening.⁷

The exchange carriers recognize their need to respond ever more quickly to the market. Investment in new technology and in service improvements is increasingly essential to them. Since new entrants can initiate service with the most current technology, established carriers have a continuing burden on them to depreciate the investment that is no longer competitive, and to implement their own advances more rapidly and more extensively.⁸

Competitors of the fully subject carriers are not restrained by the Commission's depreciation procedures. They can identify their depreciation expense based on the data that is available to them and their assessment of business dynamics. They are free to

average.

⁷Contrast the Commission's recognition in the LEC Price Cap Order: "If we can design a regulatory system for these carriers' access business that mirrors the efficiency incentives found in competitive markets, we will have put into place a system that will go a long way toward making the LECs stronger, more productive competitors for all the markets in which they must operate." LEC Price Cap Order, supra, 5 FCC Rcd 6786, 6790 at ¶ 33.

⁸A significant amount of the carriers' investment was made under regulatory policies that were able to balance a statutory "obligation to serve" with more gradual change in investment needs. The depreciation assumptions under which that investment was made were far different than the reality now being experienced.

exercise whatever business judgment they can bring to bear on the issue. Their depreciation decisions are not subject to dilution or second-guessing by another party.⁹

This flexibility stands in stark contrast to the limits that exist for fully subject carriers. As a matter of competitive fairness, the fully subject carriers should not be handicapped by depreciation rules that fail to approximate the options available to their competitors.¹⁰ The Commission's NPRM is timely. An appropriate response is one that allows for each carrier's future needs - needs that are obvious now. Carriers should not forfeit their opportunity for capital recovery because Commission depreciation procedures do not keep up with marketplace changes, changes due in significant part to other Commission policies.

II. SIMPLIFICATION WILL SERVE THE PUBLIC INTEREST.

USTA applauds the Commission's interest in simplifying its depreciation procedures. As stated above, it is especially timely to do that now; there is much that

⁹Competitors whose depreciation is not regulated use rates that are substantially different from those of the subject carriers. Cellular carriers depreciate their digital switches over an average period of 8.8 years while the Commission typically uses a projected life of 17-19 years for the fully subject carriers. These cellular switches are virtually identical to the switches of the exchange carriers. See Technological Change and the Cellular Industry, a white paper prepared by Coopers and Lybrand for the CTIA, November, 1991. ("the (cellular) switch at the hub of a cellular system performs all of the basic functions of a regular telephone switch...") The book life for cellular coaxial cable is 7.3 years; cellular buildings have lives of 17-19 years.

Likewise, data on the distribution systems of some large cable television companies, including companies that are using their networks to provide Title II services, show that the distribution systems comparable to the outside plant of the exchange carriers are being depreciated over a 5-15 year period.

¹⁰See LEC Price Cap Order, supra, 5 FCC Rcd 6786, 6830 at ¶ 355 ("If LECs fail to provide good quality service and invest in advanced technology to keep their network at the technological forefront, the market will punish them through a loss of demand.")

can be achieved. As described below, this can be achieved within a framework of Commission oversight and inherent market controls. Procedures can be put in place that maintain depreciation accuracy and reflect market changes, while recognizing differences among carriers. USTA quantifies the potential savings from the various options in this section.

Customer demand ultimately drives carriers' investment decisions. The pressure felt by exchange carriers to improve their networks is ubiquitous, but the nature of customer demand causes variations among exchange carriers in their investment focus. Carriers must make choices about where they will invest first, and how they will make that investment. Thus, depreciation accruals will vary across the industry. The same pressures that led the Commission to adopt price cap regulation for the largest fully subject carriers also render today's process, with the current depreciation study guidelines, an impediment that limits responsiveness by the carriers.¹¹ The same pressures that are forcing reevaluation and restructuring of the basic operations of carriers in the market apply to these basic depreciation processes of those carriers. If the Commission intends to institutionalize policies that will encourage shareholders to invest the enormous sums needed to assure the future viability and growth of carrier networks, these shareholders must be able to expect that they will have the opportunity for a timely return of their investment.

¹¹The guidelines, a binder issued by the Commission staff that contains requirements to summarize historical results, lose their value in a rapidly changing environment.

Simplification is an issue for both price cap carriers and rate of return carriers. Technology is not sensitive to the regulatory status of carriers. Nor do competitors determine their market strategies on the basis of the regulatory status of the carriers against whom they compete. Customer benefit will accrue from depreciation simplification for customers of both price cap and rate of return carriers. Simplification can be effectively implemented in such a way that the interests of the Commission, the carriers and their customers all are served.

The Commission asks commenters to identify the cost savings that can result from the various options it sets out in the NPRM.¹² The Commission should use this proceeding to make the depreciation process more straightforward, promoting public benefit by limiting administrative burdens. It should put in place procedures targeted to achieve results that are reasonable in today's environment. USTA's calculations of the expected administrative savings, for the exchange carriers as a group, that would result from the various options show that the option that would reduce costs the most is the Price Cap Carrier option. These estimates cover most of the fully subject exchange carriers. That option would reduce current costs by about 47.3%, providing a savings of up to \$16.1 million from current administrative costs, estimated to be \$34 million.¹³

The second most cost effective option was the Depreciation Rate Range option. That option produced total administrative cost savings of 33.2%, or a reduction of \$11.3

¹²NPRM at ¶¶ 14, 26 and 41.

¹³For purposes of this estimate, USTA assumed that the options would be available for use with all accounts across all jurisdictions, and would not be limited to only the smaller accounts.

million from the total costs of \$34 million. Not far behind was the Basic Factors Range option, with total savings estimated to be 31.5%, or \$10.7 million. Additional assumptions made for these options were that the ranges adopted will be of adequate size to encompass the carrier's likely depreciation rates in an increasingly competitive environment. These results were important factors in USTA's conclusion that the Price Cap Carrier option should be adopted for all carriers. If that option is limited to price cap carriers, the preferred alternative for rate of return carriers is, first, the Depreciation Rate Range alternative, and second, the Basic Factors Range option.

III. THE PRICE CAP CARRIER OPTION IS THE OPTION THAT WILL DELIVER THE MAXIMUM PUBLIC INTEREST BENEFIT.

A. A Responsive Price Cap Carrier Filing Must Be Defined.

The Commission explores its Price Cap Carrier option at ¶¶ 40-43 of the NPRM. The Commission explains that this option would include the filing with the Commission by price cap carriers of "(their) depreciation rates in effect, their proposed depreciation rates and the changes in depreciation expense that they would experience if the proposed rates became effective."¹⁴ The Commission suggests that carriers "would not be required to provide supporting data for their proposed depreciation rate changes."¹⁵

While USTA is a strong advocate of this option, it would carefully redefine the nature of the Price Cap Carrier option, for two reasons. First, commenters should have a

¹⁴NPRM at ¶ 41.

¹⁵Id.

clear understanding of the exact nature of the option USTA supports. Second, the explanation of this option in the NPRM could create an inaccurate impression about the nature of the supporting documentation that would be expected to be available to the Commission and to interested persons. The NPRM implies that adoption of this alternative might leave the Commission without any data or any procedure to analyze the proposed rates. This is highly inaccurate, and could prejudice full consideration of this option, leading commenters to dismiss this alternative erroneously.

The Price Cap Carrier option need not be limited to price cap carriers. While this option provides a better fit with the Commission's price cap regulation scheme, it may be able to be applied, with comparable benefits, to rate of return carriers. The Commission should evaluate the merit of applying this option to rate of return carriers, and use it to the extent possible.

In point of fact, the Price Cap Carrier option would not remove the Commission's ongoing processes of monitoring all fully subject carriers' depreciation data and using its oversight authority when that authority is needed. This option seeks to maximize benefits by merging depreciation policy with the balanced policies of existing price cap regulation. Both would provide a better approximation of market forces at work when used together.¹⁶ Just as price cap regulation is not deregulation of rates, this depreciation option would not be deregulation of depreciation.

USTA would define a responsible Price Cap Carrier option in the following way:

¹⁶See LEC Price Cap Order, *supra*, 5 FCC Rcd 6786, 6790 at ¶ 32 ("Incentive regulation, by creating incentives for carriers to become more productive, generates powerful motives to innovate, and is a better way of regulating.")

The carrier would file the major data elements used to calculate the depreciation rates - reserves, life and salvage estimates, current and proposed depreciation rates, and accrual changes, with a letter of explanation. These cover the key dimensions of depreciation. A carrier would be expected to file for depreciation rates no more often than once a year, and no less often than every three years. Carriers would continue to follow the present method of calculating depreciation rates, i.e., using a remaining life methodology, which has remained generally consistent since Docket 20188.¹⁷ It is not the intention to withhold information that is essential for the Commission.

The Commission would review the material filed by the carrier, and the Commission would issue its Public Notice. A three-way meeting between the dates of the carrier's filing and the Public Notice could, but may not need to be held, since the affected state commissions would receive the carrier's material and could provide their detailed input during the comment cycle. Three-way meetings could be held when the parties recognize that the benefits would outweigh the costs.

The Commission's Public Notice need not differ in any significant respect from the Public Notices provided today.¹⁸ The Commission now includes in its current Public Notices a summary of the data filed on rates and accrual changes; no change would be contemplated in this procedure. As is the case today, commenters would have

¹⁷Amendment of Part 31, 83 FCC 2d 267 (1980), recon. 87 FCC 2d 916 (1981), further order, 87 FCC 2d 1112 (1981).

¹⁸See e.g., Public Notice, Comment Invited on Depreciation Rate Prescriptions Proposed for Domestic Telephone Carriers, 7 FCC Rcd 5264 (1992).

access to all publicly-available material of the carrier on its depreciation rates that is on file at the Commission, through normal document distribution avenues.¹⁹

The notice and comment process would continue to lead to prescriptions of rates, as contemplated by the Act.²⁰ The Commission would assess the various filings made in response to the Public Notice, consider the views and recommendations of the state commissions that respond, under § 220(i), and then evaluate the reasonableness of the carrier's proposals in light of these filings. The Commission would then issue an order that prescribes the rates it considers most appropriate, pursuant to § 220(b).

Defining the Price Cap Carrier option in this way illustrates that the process would be anything but a "rubber stamp" of carrier requests. It would, however, streamline the process significantly, because it would reduce the need for extensively detailed and voluminous studies, and duplicative data. This option would rely on the material submitted by the carriers, the accounting information made available since the last prescription, and the expertise of the Commission staff. The Commission staff would continue to have the data needed to undertake analysis of reserve level trends over time, to make comparisons among carriers and other businesses, and to determine the overall reasonableness of the rates at issue.

¹⁹A state would receive copies of the carrier's submission to the Commission.

²⁰The ability that would be afforded here to carriers to make depreciation rate changes in line with Commission prescriptions differs in no relevant legal respect from the ranges contemplated under the other options. See NPRM at ¶ 14. In each case, the procedure described in these comments would be consistent with § 220(b) of the Act. It would allow the rate to be adjusted more quickly to remain "representative of the actual consumption of the plant." NPRM at ¶ 5.

As described below, there are many safeguards in place that will give the Commission additional comfort concerning the carriers' proposals, including the Commission's Part 32 and Part 64 rules, and accounting under generally accepted accounting principles (GAAP).²¹ This option is not a radical shift in depreciation rate prescription. It fits along a continuum of options, and represents a logical extension of the best aspects of today's procedures and the other three options identified in the NPRM, targeted to deal with price cap carriers' needs in an era of ever-increasing competition and rapidly changing technology. This is totally consistent with the Commission's oft-stated objective to prefer market forces over regulation. It can, and should be implemented during 1994.

B. This Price Cap Carrier Option Is the Option That Should Be Adopted.

Assuming that this option is carefully defined, USTA strongly endorses it for use by carriers in their interstate depreciation filings.

This option is the best simplification alternative because the link between regulatory depreciation and prices has been broken for the largest exchange carriers, and it is the market that now determines those prices, not the Commission.²² It therefore is

²¹See Revision of the Uniform System of Accounts, FCC 86-221, released May 15, 1986, 51 Fed. Reg. 24745 (July 8, 1986) and 51 Fed. Reg. 43493 (December 2, 1986), recon., FCC 87-54, released February 18, 1987; Separation of the Costs of Regulated Activities from the Costs of Nonregulated Activities, 2 FCC Rcd 1298 (1987), recon. 2 FCC Rcd 6283 (1987) further recon., 3 FCC Rcd 6701 (1988); Revision of the Uniform System of Accounts to Accommodate Generally Accepted Accounting Principles, 102 FCC 2d 964 (1985).

²²See LEC Price Cap Order, *supra*, 5 FCC Rcd 6786, 6830 at ¶ 355 ("We rely also on the ability of price cap regulation to supplement and in effect to replicate many of the

essential that the Commission set a framework into place that will promote a more accurate reflection of the changing economic value of carrier assets subject to competition and technology advances. This framework would do it best for depreciation. This option places the primary responsibility for capital recovery where it belongs, on the carrier that is affected, and it makes the carrier responsible for planning how its investment will be recovered in the markets in which it operates. This option demands that a carrier focus on the future, and recognize that it will be responsible for its future choices, good or bad.

The Price Cap Carrier option would further fundamental goals of the Act. In USTA's view, it would promote greater accuracy in the level of depreciation expense, and would assist the Commission to better target regulation as an adjunct to marketplace dynamics. It would allow better use of Commission resources, and remove administrative costs for both carriers and the Commission.

The requisite policies or rules would be by far the least complex, directly responding to the Commission's simplification objectives. If adopted, the Price Cap Carrier option has the greatest potential to provide cost savings in the depreciation prescription process.

The Commission could best promote responsible infrastructure investment by the carriers using this option. The carriers would develop the investment programs they found most responsive to their operating environment, and then implement them over

effects of competition, to encourage price cap LECs to make economic decisions such as they would make in a competitive environment...")

time. Each filing under the Price Cap Carrier alternative would be able to identify the carrier's progress. Unlike the current process, which may value mathematical exactitude over customer and market responsiveness, carriers would have a better opportunity to match depreciation to anticipated investment needs and to catch technology waves as they break. The Commission and carriers' roles would complement one another.

The customer will benefit in a number of ways. The customer will gain the promise of new technology sooner, because carriers will face less ambiguity when they make modernization decisions. This option also will promote depreciation that best tracks actual market pressures - properly aligning depreciation with the market on a more consistent basis. Regulatory lag will be reduced. And, of great significance for the price cap carrier's customer, its prices won't increase because of this option.

C. One Procedure Should Be Adopted for All Companies.

The Commission asks a number of questions about the Price Cap Carrier option. A key question that is raised for this (and for each of the other three options) is whether the Commission should differentiate among fully subject carriers depending upon whether they are interexchange carriers or exchange carriers.²³

USTA opposes such differentiation by industry segment.²⁴ Customers increasingly make no distinction among carriers; they are concerned with services and responsiveness. Large customers in particular have choices among carriers and often

²³NPRM at ¶¶ 15, 28a and 35a.

²⁴This position holds for every option identified the NPRM.

arrange their communications facilities without regard to jurisdictional or Commission-perceived boundaries.

Technology also is not sensitive to the boundaries among industry segments. In fact, the increasing interconnection options for customers and carriers operate to reduce the time within which every carrier must update its technology or face competitive losses. SS7 functionality, a recent and broadbased network upgrade, is the same whether it exists in exchange or interexchange networks. Likewise, digital switching choices are the same for interexchange and exchange carriers. Technology change does not stop at the exchange area boundary. Depreciation in communications regulation should differentiate assets, not asset owners.

IV. THE DEPRECIATION RATE RANGE OPTION SHOULD BE ADOPTED FOR ANY CARRIER NOT INCLUDED IN THE PRICE CAP CARRIER OPTION, WITH THE BASIC FACTOR RANGE OPTION A POSSIBLE ALTERNATIVE.

A. The Depreciation Rate Range and Basic Factors Range Options Must Be Carefully Defined.

The Commission proposes two alternatives under which it would prescribe a range or ranges. In these alternatives, the Commission would prescribe depreciation rates or basic factors. One of these options is called the Basic Factors Range option, and the other is called the Depreciation Rate Range option. The former would set ranges for basic factors, such as future net salvage, projection life, and survivor curve, for each

relevant account.²⁵ The latter would establish a range of actual depreciation rates for each account.²⁶

These two options appear similar in the procedures that are contemplated. They differ in the nature of the determination that would come from the Commission. Both "range" options can lead to benefit. USTA believes that, on balance, using each range option for all accounts, the Depreciation Rate Range option is preferable, although there would be little difference in benefit as between the two range options. The Depreciation Rate Range option appears to be the best alternative for carriers if the Price Cap Carrier option is not going to be available to them, because there would appear to be fewer decisions that would be required on ranges with this option in comparison with the Basic Factors Range option, and the reduction in administrative cost slightly greater. The specific details involved in each of the options could ultimately determine which of the two is best.²⁷

As with the Price Cap Carrier option, precise definition of what would be required of a carrier is important. The administrative cost saving anticipated by the Commission is dependent on the nature and breadth of the ranges identified and the number of studies that are required. The accrual rate ranges must be appropriate, and set around realistic future-oriented benchmarks. The ranges must accommodate the variety of needs present among the carriers that are covered. USTA focuses primarily on the

²⁵NPRM at ¶ 13.

²⁶NPRM at ¶ 26.

²⁷USTA may address this further in reply comments, as the comments may show the Basic Factors Range to be preferable for reasons other than cost savings.

Depreciation Rate Range option here; most of the discussion is applicable to the other range option.

USTA proposes that under the Depreciation Rate Range option, a fully subject carrier would file a statement of the requested rates, along with a letter of explanation. As with the Price Cap Carrier option, a carrier would make its filing no less often than every three years, but would have the option to make a filing annually. A similar procedure would be followed with the Basic Factors Range option.

USTA believes that, if either of the "range" options is adopted, it can be used for all accounts, and should be implemented for all accounts beginning in 1994.²⁸ Using it for only a subset of accounts would seriously dilute the simplification benefits of this option, particularly if ranges are available only for the smallest or least significant accounts.²⁹

The carrier's filing under the Depreciation Rate Range option would focus on depreciation rates. Its filing under the Basic Factors Range option would focus on the factors ultimately identified in the Commission's rule. In most respects, the procedures would be consistent with what is described above for the Price Cap Carrier option. As with today, the Commission would retain control over the process under this option.

The primary difference is that the Commission would initially establish the rate or factor ranges, the carriers would then propose the actual rates that they desired to use

²⁸If either range option is adopted, the Commission should move quickly to set appropriate ranges.

²⁹The NPRM would extend these options initially to only a subset of accounts. NPRM at ¶¶ 16 and 28b.

based on the ranges adopted, and the Commission would issue a prescription order after evaluating whether the proposed rates (or factors) were within the established ranges. If requested by the Commission, the carriers could furnish a summary of parameters, such as the projected lives, and also future or salvage figures used to derive the rates requested. This would, however, limit the simplification and thus reduce slightly the cost reduction benefits. If a carrier's rates (or factors) were within the range, the rates would be presumptively acceptable. An objection should be considered only if it showed that the rate (or factors) were based on an error, and would fall outside the Commission's prescribed range.

Carriers should be given up to three years to move up or down into the defined ranges. A carrier should always have the opportunity to request rates that may not be within the ranges, by providing adequate supporting documentation. The burden should not differ from what is expected today. In a manner similar to price caps, carriers could justify use of rates or factors outside the range on a showing that includes a study that is acceptable to the Commission. An appropriate standard would be set for such filings. Simplification should not threaten the carriers' rights to an opportunity to recover their investment in a timely manner, nor force them to alter their depreciation arrangements or their retirements to get into a range.

B. The Depreciation Rate Range and Basic Factors Range Options Are the Second Best Alternatives.

The Depreciation Rate Range and Basic Factors Range options can provide simplification advantages for carriers. Even though they may not be as great as what would be available under the Price Cap Carrier option, they will nevertheless be

significant, given the streamlining of study requirements. Thus, cost savings will result.³⁰

A crucial factor in each of the range options that can maximize the cost savings and remove the burden of consistent monitoring is the size of the industry-wide ranges themselves. It is essential that the industry-wide ranges that are adopted be wide enough to permit variations for carriers, and cover enough rates so that a carrier does not begin with this option at the far boundary of a range, with no leeway to adjust its existing rates in a direction that reflects the market.

The range options must recognize the consumption rates occurring today. They must reflect technology conditions and trends. If the ranges are not sufficiently wide to accommodate those trends and if updates are not timely, their existence will not add either simplification or competitive responsiveness. Reserve deficiencies would result in any case where the ranges deviate from actual market conditions and experience, as the Commission acknowledges.³¹ The Commission must be particularly conscious of trends that are growing in significance.

As stated above, it is not appropriate to differentiate the exchange and interexchange market. New technology is equally available to carriers in the exchange and interexchange markets; business strategies of carriers must increasingly take into account events in each area. And the arbitrary regulatory boundaries are increasingly

³⁰As explained, above, either range option can produce cost savings of comparable amounts if all accounts are included and the ranges are adequate.

³¹NPRM at ¶ 31.